

Image Systems

Sector: Industrial Goods & Services

Brighter market outlook

Redeye is now more optimistic on the near-term outlook following an array of orders from RemaSawco's customers, resulting in strong order bookings in Q4. Investments in the sawmill industry are picking up again and Image Systems other business segment, Motion Analysis, continues to grow, mainly driven by higher defense spending. We raise our 2024-25 forecasts, and our Base case fair value is now ~SEK2.0 per share (previously: SEK1.8).

Q4 report basically as expected

Fourth quarter sales and earnings were significantly lower Y/Y, which was no surprise as RemaSawco had a shrinking order backlog up until the end of 2023. Motion Analysis on the other hand, continued to show firm growth and solid earnings. On Group level, sales were down 25% Y/Y with EBITDA margins of 9%.

On a positive note, cash flow was strong: SEK9m after investments thanks to SEK12m from changes in working capital. This is probably related to pre-payments for larger orders from RemaSawco's customers. Net cash at the end of Q4 improved to SEK7m from only SEK1m in Q3'23, which is encouraging.

Bonanza of orders

Starting in November last year, the company has announced a large number of orders. Mostly related to RemaSawco, but also some within Motion Analysis. Q4 order bookings of SEK74m is one of the highest amounts in company history. Many of these orders had been postponed during 2023, due to the uncertain market situation in the sawmill industry. So probably a bit of a catch-up effect. Even if the outlook remains volatile, this calls for some optimism. As for Motion Analysis, the market climate and demand is still firm. Particularly from the defense industry where the company has a solid position within its niche market segment.

Raising our near-term forecasts

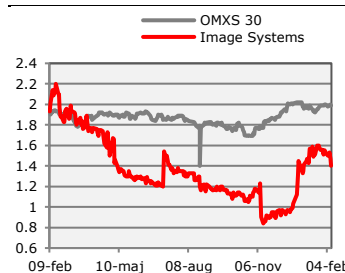
With a healthy order backlog of SEK73m we are now raising our forecasts. Particularly for 2024, which we previously expected to be more sluggish. Our Base case fair value is inching a little higher: ~SEK2.0 per share (previously SEK1.8), suggesting an appealing potential of around 40% to current share price level.

Key Financials (SEKm)	2022	2023	2024e	2025e	2026e
Net sales	171	161	177	192	206
Sales growth	14%	-5%	9%	8%	7%
EBITDA	28	16	23	30	32
EBIT	9	-5	7	13	17
EBIT Margin (%)	5%	-3%	4%	7%	8%
Net Income	9	-7	5	12	13
EV/Sales	0.8	0.8	0.6	0.5	0.4
EV/EBITDA	4.8	8.3	4.9	3.4	2.7
EV/EBIT	15.0	neg	17.2	7.5	5.2

FAIR VALUE RANGE

BEAR	BASE	BULL
0.9	2.0	3.3

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ISY.ST
Market	Nasdaq
Share Price (SEK)	1.4
Market Cap (MSEK)	125
Net cash 24E (MSEK)	10
Free Float	44%
Avg. daily volume ('000)	100

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Q4 numbers as expected

Sales and earnings in the fourth quarter were quite in-line with our expectations in both business segments. Gross margins remain firm, with a BOM margin (sales less raw materials and consumables) of 69%, supported by a favorable sales mix (Motion Analysis had rather high sales). Opex were unchanged Y/Y but a little higher Q/Q due to seasonality. Cash flow after investments amounted to SEK9m thanks to positive changes in working capital, most likely relating to pre-payments from some of the larger orders received in Q4.

Image Systems: Actual vs. expected

(SEKm)	Q4 2022	Q4 2023		Diff
		Actual	Q4 2023e	
RemaSawco				
Net sales	43.8	28.0	25.0	12%
EBITDA	6.7	-0.5	0.5	n.m.
EBITDA margin	15%	-2%	2%	
Motion Analysis				
Net sales	10.2	12.1	12.0	1%
EBITDA	4.0	5.4	4.8	13%
EBITDA margin	39%	45%	40%	
Group net sales	54	40.1	37.0	8%
Group EBITDA	9.3	3.5	4.0	-13%
EBITDA margin	17%	9%	11%	
Group EBIT	4.6	-1.3	-0.2	n.m.

Source: Image Systems, Redeye Research

Order bookings of SEK74m is certainly the brightest spot in the report. However, not really surprising since loads of orders were announced in November and December. As shown in the graph below, SEK74m is a record level for the group. At least in recent years. The bulk is of course related to RemaSawco (SEK59m). But Motion Analysis also had a strong order intake of SEK16m, driven by customers in the defense industry.

Orders and Book-to-Bill, SEKm

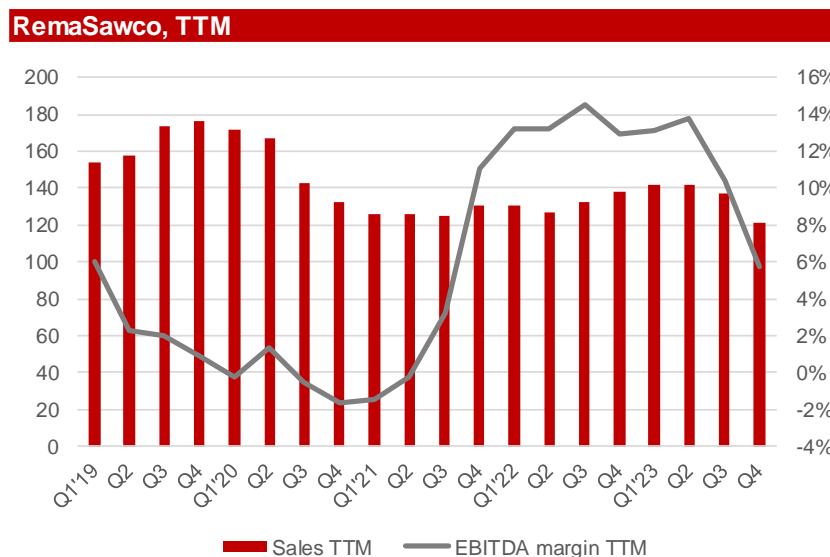
Major pick-up in order bookings and backlog



Source: Image Systems, Redeye Research

RemaSawco – pick-up in market sentiment

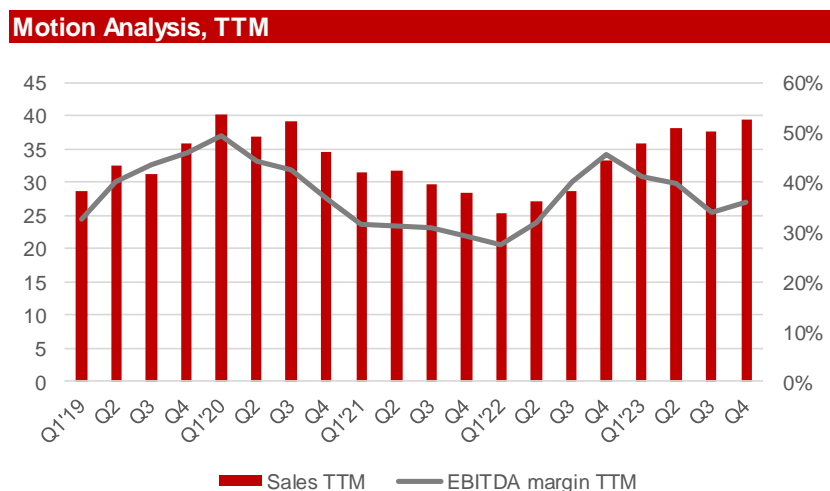
RemaSawco had a tough 2023 with a shrinking order backlog and sluggish business activity. EBITDA margins have gradually declined from a healthy double-digit level, but for the full year still ended up around 6%. In 2023, many customers in the sawmill industry had a “wait and see” approach to investments. But judging from the activity in the last few months, sentiment has started to improve. The charts below show revenues and EBITDA margins, four quarters trailing. As illustrated, RemaSawco reached solid margins in 2021-22 despite lower volumes than in the preceding years, due to major changes to the organization and customer offering.



Source: Image Systems, Redeye Research.

Motion Analysis – solid momentum

Motion Analysis is keeping good momentum in its expansion with 18% top-line growth in Q4 as well as for the full year 2023. The defense industry is the major driver with several new orders announced lately. The launch of the new product platform is planned for Q4' 24. This will provide new and better functionalities which will expand the offering. The new platform will to a greater extent support the company's SaaS business model, which will hopefully get better market traction in 2025 and forward. With mainly fixed costs and very high gross margins (certainly for the software), operating leverage is significant.



Source: Image Systems, Redeye Research.

Financial Forecasts

We are now raising our forecasts, particularly for 2024. Changes are mainly related to RemaSawco and the obvious reason is the order backlog and some improvement in the sentiment for investments in the sawmill industry. Given the overall current situation in the industry, with lower profitability for the sawmills and a slowdown in the economy, it is however difficult to predict if this is a sustainable recovery.

Motion Analysis' market outlook is much more stable, and the customer base is much wider. We believe the company can maintain a double-digit growth rate in the underlying business. We expect the SaaS model to take a larger share of the new business which will have an adverse effect on report sales in the coming years. Hence lower growth in 2025-26.

Image Systems: Estimate changes			
(SEKm)	2024e	2025e	2026e
Group net sales			
Old	158	184	202
New	177	192	206
% change	12%	4%	2%
EBITDA			
Old	15	27	32
New	23	30	32
margin	13%	16%	16%
EBIT			
Old	0	11	17
New	7	13	17
margin	4%	7%	8%

Source: Redeye Research

RemaSawco's transformation in recent years, will likely enable more stability in earnings while also providing better long-term growth opportunities. The ambition is to grow the service offering and a more streamlined product portfolio will enable better economies of scale. We still expect RemaSawco to hire more skilled staff to support its growth in the coming years, which will mitigate some of the margin improvement.

Motion Analysis is set to continue investments in product development for future growth. Hence, costs will likely continue to rise somewhat. We believe the current EBITDA margin level around 36% is a fair estimate for the next few years.

Image Systems estimates						
(SEKm)	2021	2022	2023	2024e	2025e	2026e
Total net sales	152	171	161	177	192	206
RemaSawco	130	138	121	133	146	161
Motion Analysis	28	33	40	44	46	46
Group growth	-6%	12%	-6%	10%	8%	8%
COGS	-49	-56	-48	-53	-57	-62
Gross profit	110	115	113	124	134	144
margin	68%	67%	70%	70%	70%	70%
OPEX	-90	-86	-97	-100	-104	-112
EBITDA	19	28	16	23	30	32
margin	12%	17%	10%	13%	16%	16%
<u>Whereof</u>						
RemaSawco	14	18	7	13	19	22
margin	11%	13%	6%	10%	13%	14%
Motion Analysis	8	15	14	16	17	17
margin	29%	46%	36%	36%	36%	36%
Amortization & Depreciation	-19	-19	-21	-17	-16	-15
EBIT	1	9	-5	7	13	17
margin	1%	5%	-3%	4%	7%	8%

Source: Image Systems, Redeye Research

Valuation

Fair value per share:
~SEK 2

Our DCF valuation is based on the forecasts above and the assumptions outlined below. Our Base case fair value is now around **SEK2.0 per share**, vs SEK1.8 before. The difference is related to higher near-term estimates. Our long-term projections and assumptions are unchanged:

- CAGR 2027-32: 5%.
- Average EBIT margins ~12%.
- WACC: 12%

Image Systems, assumptions and valuation

Assumptions	2027-32	DCF-value	
CAGR sales	5%	WACC	12.0%
EBIT margin (avg.)	12%	PV of FCF	88
		PV of Terminal value	85
Terminal		EV	174
Net sales 2033E, SEKm	292	Net cash	2
Growth FCF	2%		
EBIT margin	12%	DCF value	176
		Fair value per share	2.0
EV/S Exit multiple	0.8	Current share price	1.4
EV/EBIT Exit multiple	7.0	Potential	41%

Source: Redeye Research

Multiples clearly attractive

We consider the most relevant earnings multiple is somewhere between EV/EBIT and EV/EBITDA. A large part of amortizations are related to intangible assets from acquisitions and should be excluded. Total depreciations and amortizations are currently higher than the going run-rate for investments. Based on our forecasts, we believe the share is currently trading at very attractive multiples.

Valuation multiples

Share price, SEK: 1.4	2021	2022	2023	2024e	2025e	2026e
P/S	0.9	0.9	0.8	0.7	0.7	0.6
P/E	>100	17.6	neg	25.2	10.6	9.3
EV/EBIT	>100	14.8	neg	>100	9.1	7.3
EV/EBITDA	7.2	4.7	7.9	5.2	4.1	3.8

Source: Redeye Research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report: No.

People: 3

Overall, Image Systems has an experienced team with in-depth market knowledge. The CEO (Johan Friberg) is an internal recruitment and had the position as Managing Director of Motion Analysis since 2012. The management's focus on profitable growth is clear, showing that they aim to create value for the company's customers. The company has a solid list of shareholders and the three largest own around 50%. To improve our ownership scoring, we would like to see higher shareholdings by management. On the positive side, we believe that the largest shareholders have the financial strength to back up a potential future share issue.

Business: 3

Image Systems has high gross margins in both business areas, particularly in Motions Analysis' software business. While RemaSawco has a solid market position in Scandinavia and Northern Europe, Motion Analysis is a dominant global player in its specific market niches. Image Systems has a huge distribution network in Motion Analysis, making it possible to develop or add products to the portfolio and distribute them very efficiently. Both target markets for Image Systems are expected to grow by more than 5 % annually in coming years.

Financials: 2

The low financial score for Image Systems is related to the company's history. Operating cash flow and earnings have been negative historically, although 2021-22 saw an improvement. The company now has a positive net cash position. Hence, financial flexibility has improved. The business should be cash flow positive given normal market conditions, but profitability is quite sensitive to volumes. The company has a large number of clients but obviously the majority of sales is related to the cyclical sawmill industry. If the company delivers according to our expectations, its financial rating will gradually improve.

	2023	2024E	2025E	2026E
INCOME STATEMENT				
Net sales	161	177	192	206
Cost of Revenues	58	63	67	72
Gross Profit	113	124	134	144
Operating Expenses	97	100	104	112
EBITDA	16	23	30	32
Depreciation & Amortization	21	17	16	15
EBIT	-5	7	13	17
Net Financial Items	-2	-1	0	0
EBT	-7	5	13	17
Income Tax Expenses	-1	1	1	3
Non-Controlling Interest	0	0	0	0
Net Income	-7	5	12	13
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	7	10	24	38
Inventories	13	14	17	21
Accounts Receivable	33	32	31	31
Other Current Assets	6	9	10	10
Total Current Assets	59	65	82	100
Non-current assets				
Property, Plant & Equipment, Net	1	2	3	4
Goodwill	36	36	36	36
Intangible Assets	58	52	46	42
Right-of-Use Assets	10	10	10	10
Shares in Associates	0	0	0	0
Other Long-Term Assets	19	19	19	19
Total Non-Current Assets	124	119	114	111
Total Assets	183	184	196	211
Liabilities				
Current liabilities				
Short-Term Debt	5	0	0	0
Short-Term Lease Liabilities	5	5	5	5
Accounts Payable	12	12	13	14
Other Current Liabilities	35	35	34	35
Total Current Liabilities	57	53	53	55
Non-current liabilities				
Long-Term Debt	0	0	0	0
Long-Term Lease Liabilities	4	4	4	4
Other Long-Term Liabilities	6	6	6	6
Total Non-current Liabilities	10	10	10	10
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	116	121	133	146
Total Liabilities & Equity	183	184	196	211
CASH FLOW				
NOPAT	-5	6	12	13
Change in Working Capital	-11	-2	-4	-4
Operating Cash Flow	2	20	26	26
Capital Expenditures	-4	-2	-2	-2
Investment in Intangible Assets	-11	-10	-10	-10
Investing Cash Flow	-15	-11	-11	-12
Financing Cash Flow	-3	-5	0	0
Free Cash Flow	-13	8	14	14

	2023	2024E	2025E	2026E
DCF Valuation Metrics				
Initial Period (2024–2026)				22
Momentum period (2026-31)				143
Stable period (2032-)				9
Firm Value				174
Net Debt (last quarter)				-2
Equity Value				176
Fair Value per Share				2.0
CAPITAL STRUCTURE				
Equity Ratio	0.6	0.7	0.7	0.7
Debt to equity	0.0	0.0	0.0	0.0
Net Debt	-1	-10	-24	-37
Capital Employed	126	131	142	156
Working Capital Turnover	12.9	12.2	10.6	9.5
GROWTH				
Revenue Growth	-5%	9%	8%	7%
Basic EPS Growth	>100%	-173%	138%	14%
Adjusted Basic EPS Growth	>100%	-173%	138%	14%
PROFITABILITY				
ROE	-6%	4%	9%	10%
ROCE	-4%	5%	9%	11%
ROIC	-5%	6%	12%	13%
EBITDA Margin (%)	10%	13%	16%	16%
EBIT Margin (%)	-3%	4%	7%	8%
Net Income Margin (%)	-4%	3%	6%	7%
VALUATION				
Basic EPS	-0.1	0.1	0.1	0.2
Adjusted Basic EPS	-0.1	0.1	0.1	0.2
P/E	neg	25.3	10.6	9.3
EV/Revenue	0.8	0.6	0.5	0.4
EV/EBITDA	8.3	4.9	3.4	2.7
EV/EBIT	neg	17.2	7.5	5.2
P/B	1.1	1.0	0.9	0.9
SHAREHOLDER STRUCTURE				
	CAPITAL %	VOTES %		
Tibia konsult AB	32.0%	32.0%		
Thomas Wernhoff	15.7%	15.7%		
Hans Malm	8.5%	8.5%		
LMK Forward	6.2%	6.2%		
Avanza Pension	5.7%	5.7%		
SHARE INFORMATION				
Reuters code				ISY.ST
List				Nasdaq
Share price				1.40
Total shares, million				89.2
MANAGEMENT & BOARD				
CEO				Johan Friberg
Finance Manager				Lotta Överström
Chairman				Anders Fransson
ANALYSTS				
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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Henrik Alveskog owns shares in the company : No

Anton Hoof owns shares in the company : No

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